Contacts
Israel (1968-1971)

ISRAEL

ISRAEL

	7/18/68	Arie Eliav, Member of Parliament
1.	7/20/68	Ambassador Yitzhak Rabin
2.	9/6/68	Zeev Sharef, Minister of Finance of Israel Shimon Alexandroni, Minister of Economic Affairs, UN Moshe Meirav, Economic Counselor, Embassy Ambassador Yitzhak Rabin
3.	9/27/68	Gov. David Horowitz, Bank of Israel Moshe Meirav, Economic Counselor, Embassy Ambassador Yitzhak Rabin
4.	9/30/68	Dr. Pinchas Sapir, Minister without portfolio Jacob Arnon, Director General, Ministry of Finance Shimon Alexandroni, Adviser, and Minister of Economic Affairs, UN Moshe Meirav, Economic Counselor, Embassy
5.	3/13/69	Moshe Mayer, General Managing Director, Export Bank Ltd., Tel Aviv, Israel Ambassador Timothee N'Guetta Ahoua, Ivory Coast
6.	5/2/69	Dov Zakin, Department of State International Visitor from Israel (Political Secretary of Mapam (United Workers Party) in Israel)
7.	6/2/69	Zeev Sharef, Minister of Finance Mr. Nedvi, Personal Assistant Shimon Alexandroni, Economic Minister of Economic Affairs, UN Moshe Meirav, Economic Counselor, Embassy
	10/1/69	Zeev Sharef, Minister of Finance David Horowitz, Governor, Bank of Israel
8.	10/1/69	Zeev Sharef, Minister of Finance Jacob Arnon, Director General, Ministry of Finance Shimon Alexandroni, Minister of Economic Affairs, UN David Horowitz, Governor, Bank of Israel
9.	5/22/70 (Paris)	David Horowitz, Governor, Bank of Israel
10.	9/22/70 (Copen.)	Pinchas Sapir, Minister of Finance David Horowitz, Governor, Bank of Israel Y. J. Taub, Secretary General, Bank of Israel
11.	10/1/71	David Horowitz, Governor, Bank of Israel Avraham Agmon, Director General, Ministry of Finance M. Naveh, Economic Counselor, Israeli Embassy
	12/3/71	(Meeting of the Consultative Group on International Agricultural Research G. Cohen, Eastern/Southern Europe Developing Region
	2/16/72	Pinchas Sapir, Minister of Finance - lunch at Israeli Embassy

12.	2/24/72	Moshe Sanbar, Governor, Bank of Israel Dov Genachowski, Director, Research Dept. Bank of Israel Menachem Naveh, Economic Counselor, Embassy of Israel
13.	9/26/72	Pinchas Sapir, Minister of Finance Moshe Sanbar, Governor, Bank of Israel Avraham Agmon, Director General, Ministry ofFinance S. Alexandroni, Economic Minister, Embassy of Israel M. Naveh, Economic Counselor, Embassy of Israel Y. J. Taub, Director, Bank of Israel
14.	10/20/72	Shimon Alexandroni, Outgoing Economic Minister, Embassy of Israel Ze'ev Sher, Incoming Economic Minister, Embassy of Israel Manachem Nevah, Economic Counsellor, Embassy of Israel
15.	9/25/73 (Nairobi)	Moshe Sanbar, Governor, Bank of Israel Eliezer Sheffer, Director General, Bank of Israel Ephraim Davrath, Economic Adviser to the Minister of Finance Moshe Meirav, Manager, Foreign Banking Transactions, Bank of Israel
16.	1/15/74	Zvi Dinstein, Deputy Minister of Finance Ze'ev Sher, Economic Minister of Embassy Menachem Naveh, Economic Counselor of Embassy
	6/5/74	Luncheon at Embassy for Minister (former) Sapir (stopped by briefly)
17.	10/3/74	Yehoshua Rabinowitz, Minister of Finance Moshe Sanbar, Governor, Bank of Israel Eliezer Sheffer, Director General, Bank of Israel Avraham Agmon, Director General, Ministry of Finance Ephraim Davrath, Economic Adviser to the Minister of Finance Ze'ev Sher, Economic Minister, Embassy of Israel, New York Eitan Raff, Economic Counselor, Embassy of Israel
18.	9/5/75	Yehoshua Rabinowitz, Minister of Finance Moshe Sanbar, Governor, Bank of Israel
19.	10/1/75	Lunch at the Embassy for Haim Barlev, Minister of Commerce and Industry
20.	1/28/76	Prime Minister Rabin) Ambassador Dinitz) Dinner at the Embassy of Israel
	8/10/76	Ahron Uzan, Minister of Agriculture
21.	9/20/76	Ambassador Simcha Dinitz Economic Minister Ze'ev Sher Economic Counselor Eitan Raff
22.	10/7/76 (Manila)	Moshe Sanbar, Governor, Bank of Israel Arnon Gafny, Director General, Ministry of Finance Eliezer Sheffer, Director General, Bank of Israel Ephraim Davrath, Adviser to the Minister of Finance

	2/1/77	Ambassador Simcha Dinitz - hosting luncheon for Moshe Dayan at Embassy
	9/19/77	Foreign Minister Moshe Dayan, at Embassy dinner hosted by Ambassador Dinitz
23.	9/30/77 (Annual Meeting)	Finance Minister Simha Elrich Arnon Gafni, Governor of the Central Bank plus others of the Delegation
24.	10/4/79 (Annual Meeting)	Arnon Gafny, Governor of the Central Bank
25.	3/27/80	Itzhak Modai, Minister of Energy and Communications David Rodlevy, Minister for Economic Affairs, Embassy Dan Halpern, Minister for Economic Affairs, Embassy
	6/13/80	Daniel Benor
	7/2/80	H.E. Joseph Burg, Minister of Interior (Reception at Linowitz')
	8/5/80	Ephraim Evron, Ambassador of Israel
	4/21/81	Daniel Benor
	6/5/81	Prof. Shlomo Breznitz (re conference on Mankind 2000)

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FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the record

DATE: July 31, 1968

FROM: Michael L. Lejeune

SUBJECT: Visit to Mr. McNamara by the Israeli Ambassador, Major General Yitzhak Rabin

The Israeli Ambassador, Major General Rabin, called on Mr. McNamara on Saturday, July 20, at 3.30 p.m. I was present.

The Ambassador opened the conversation by saying that the Finance Minister, Mr. Sapir, would like to have an interview with Mr. McNamara at the time of the Annual Meeting. Mr. McNamara said that he would be glad to see him.

The Ambassador then went on to say that he knew that Mr. McNamara had recently been in Cairo and that he would be interested in knowing whether Mr. McNamara had noted anything there which could be read as a hopeful sign in relation to a settlement between Israel and the Arab countries.

Mr. McNamara said that he had gone to the U.A.R. solely in his capacity as President of the World Bank and he had not discussed the question of the Arab-Israeli war or its settlement but had confined himself to economic matters of direct concern to the World Bank and Egypt as an important member of the World Bank. He said that he had gone away with the firm conclusion that the Bank's relationship in the past years had been inadequate and that in the future we should play a more important part in its economic development. He said he felt that if the Bank acted to help alleviate some of Egypt's economic problems Egypt would become more stable and this might tend to reduce the tensions in the Middle East. Of course it was possible that even with the economic help which the Bank and others might give, Egypt would, for other reasons, become less stable, but this was no argument against giving such economic help as could prudently be provided.

Mr. McNamara continued that although he had not raised questions about the international political situation, he naturally had kept his eyes and ears open and he had heard many comments from people in Cairo, both Egyptians and foreign diplomatic representatives.

He then gave some of his personal views of the situation and invited comment from the Ambassador. There ensured a general discussion on the Middle East situation. The conversation did not return to Bank business.

In seeing the Ambassador to the door I reverted to the question of an appointment for Mr. Sapir. I said that it was very difficult for Mr. McNamara to see anyone during the week of the Annual Meeting itself but that there was the possibility of working out something either before or after the meeting. I asked the Ambassador to ascertain what possibility there was of Mr. Sapir coming early or leaving late and asked whether Mr. Sapir wished the meeting to be for him alone or jointly with Dr. Horowitz, the Governor of the Bank of Israel.

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Form No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Mr. McNamara - to see please.

OFFICE MEMORANDUM

RBS Sept 9

TO: For the Record

DATE: September 6, 1968

FROM: M. P. Benjenk MPB

SUBJECT: Israel: Visit to Mr. McNamara of the Israeli Minister of Finance

CONFIDENTIAL

Mr. Zeev Sharef, Minister of Finance of Israel, called on Mr. McNamara this morning at 8:30 o'clock. He was accompanied by the Ambassador of Israel, Lt. General Rabin, the Economic Minister, Mr. Alexandroni, the Economic Counselor, Mr. Meirav, and a representative from Dr. Lieftinck's office, Mr. Grooters. Mr. Knapp and Mr. Benjenk were present for the Bank.

At the outset of the meeting Mr. McNamara said that he had been informed that Israel was interested in borrowing from the World Bank. He recalled that 18 months ago a Bank economic mission had reported that capital available to Israel from normal sources was sufficient to meet Israel's investment needs as of that time and that it would be unnecessary for Israel to borrow from the World Bank. It was possible that the situation had since changed. Mr. McNamara said he did not doubt that Israel had a need for capital but he would be interested to hear from the Minister the reasons why Israel's normal sources for securing foreign capital were no longer sufficient to meet her needs. This was an important question for the Bank since Bank funds represented capital at concessionary terms, which was in short supply and should be reserved for those countries which were most in need of it.

The Minister replied that the situation had indeed changed in the last 18 months. In 1965 and 1966 the Government was mainly concerned with reducing its budget deficit and straightening out its balance of payments. In the last 12 months there had been a strong up-surge of the economy and investments had reached a level which had offset the previous two years of very limited investment activity. As a result of this, the balance of payments deficit had gone up from $450 million a year to $600 million and was expected to be $700 million next year. In addition to coping with this increased deficit, Israel needed to have large foreign exchange reserves in view of its geo-political situation.

The Minister said that the economy needed to maintain a 9 to 10 percent growth rate, even though this did not mean a rise in individual standards of living, bearing in mind the defense needs of the economy and the fact that 30,000 immigrants were expected this year and an equal number next year. This represented a doubling of the rate of the previous two years. With regard to foreign payments, Israel's aim was that export proceeds should be able eventually to pay for imports and this implied that Israeli industry should become more and more export oriented. This, in turn, meant that new technology needed to be introduced into industry and into the educational process to produce the manpower necessary for this new type of industry.

President has seen

Turning to the financing of Israel's investment program, the Minister said that he hoped that half of the investment program could be financed out of local savings and the rest from capital raised abroad. With regard to the latter he said that the sale of Israel's Development Bonds was the most obvious source and last year had been a very successful year in that respect. But 1967 had, for obvious reasons, been an exceptional year and the sale of bonds had now gone down to a more normal level. Furthermore the amount of fresh money raised by these bonds was not as large as was believed. This year, for example, $120 million of bonds would be sold but $80 millions' worth would mature, leaving only $40 million in fresh money for Israel. He therefore felt that a need for World Bank financing definitely existed.

With regard to the sectors for which capital was required, the Minister listed four. The first was tourism, which was proving to be a strong foreign exchange earner. The figure for tourists entering Israel this year would be 400,000, up from 300,000 last year. This was expected to rise to half a million by 1970. The gross income received from this source this year would be $70 million. A second sector in need of investment was higher education and particularly the scientific and engineering faculties, bearing in mind what the Minister had said earlier about modernizing Israel's industry. The third sector mentioned by the Minister was agriculture, which the Government was trying to mechanize as much as possible and to orient towards the production of special types of fruit and vegetables which would find markets in Western Europe and Great Britain. The Government's aim was to raise the volume of production of fruit and vegetables other than citrus to a level equal to that of citrus production. Their respective values now were three to one. The Minister mentioned the shortage of water in Israel and said that extensive investments were to be undertaken to make possible the re-use of sewage waters. The fourth and last sector mentioned by the Minister was infrastructure and in particular the need for roads, which were becoming saturated as a result of the expanding economy.

The Minister concluded by saying that he believed Israel qualified for lending by the World Bank and that it had used the previous loans received from the Bank in an effective manner. When considering the Israeli economy, one should bear in mind tht Israel through no fault of her own had to bear tremendous defense burdens, exceeding on a per capita basis those borne by the United States even if you added space expenditures to U.S. defense expenditures. A high level of defense expenditures would continue for a generation or more, even if a peace treaty were signed between Israel and the Arab states, since it would take a long time for suspicions to disappear and the past to be forgotten.

Mr. McNamara told the Minister that everyone in the Bank had much sympathy with Israel's request and wanted to approach it positively. The Bank, however, had to be hardheaded about the use of scarce funds at concessionary rates, particularly since some Bank funds would have to be diverted to IDA countries owing to the delay in IDA replenishment.

The Bank would therefore have to obtain the necessary information from Israel to show that the need for this type of capital existed after all normal sources had been tapped. He felt that the way to proceed would be to send an economic mission to Israel some time this fall to report on the economy in general and on this aspect in particular. Such a mission could also look at the sectors of the economy which the Minister had mentioned.

The Minister asked when such an economic mission could be sent and it was agreed that late in October would be the most likely time.

MPBenjenk/mct

cc Messrs. McNamara
Knapp
Lejeune
Thompson
Bart
Torelli

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
through Mr. J. Burke Knapp JBK

DATE: September 3, 1968

FROM: M. P. Benjenk MB

SUBJECT: Israel: Meeting with the Minister of Finance

1. On September 6 the Minister of Finance of Israel, Mr. Zeev Sharef, will call on you at 8:30 a.m. Please find below a biographical sketch of Mr. Sharef and a note on the likely topics of discussion at the meeting.

ZEEV SHAREF, MINISTER OF FINANCE, COMMERCE AND INDUSTRY

1906	Born Bukovina, Austro-Hungarian Empire. (Subsequently part of Rumania, now in the Soviet Union.)
1925	Emigrated to the then British Mandated Territory of Palestine.
1935	Appointed Secretary of the "Hapoel" Sports Organization of the Histadrut, the General Federation of Labor in Israel.
1940	Began to take an active part in the Haganah, the paramilitary self-defense organization of the Jewish population.
1943	Appointed Secretary of the Political Department of the Jewish Agency. He served in this capacity until 1947.
1947	Entrusted with the task of setting up the administrative system for the Jewish state.
1948	Appointed Secretary of the Government. He served in that post until 1957. Until 1959 he also was the General Director of the Prime Minister's Office.
1951-52	Civil Service Commissioner.
1954-61	Head of the Revenue Department of the Ministry of Finance.
1964-66	Adviser to Prime Minister Levi Eshkol, serving in this post until elected a Member of the Knesset, Israel's Parliament, in 1965. During the period from 1962-1966, he also served as Chairman of the Ports Authority.
1966	Appointed Minister of Commerce and Industry.
1968	On August 6 Mr. Sharef also assumed, in addition to his duties as Minister of Commerce and Industry, the portfolio of Minister of Finance.

President has seen

Political Situation

2. The major recent internal political event in Israel has been the unification of three major parties: the Mapai (Labor Party) to which Mr. Sharef belonged, the Rafi Party (the splinter Labor Party founded by Mr. Ben Gurion) and the Achdut Avoda (Left Wing Labor Party). Mr. Sapir, former Minister of Finance, has recently been elected Secretary of the new unified Party.

3. On the external scene, in the absence of a settlement with the neighboring Arab countries, Israel still administers, through a Military Governor, the areas occupied during the war, with the exception of the ex-Jordanian part of Jerusalem which has been fully annexed to Israel.

Request for Bank Lending

4. The Israeli Government has recently approached the Bank, through Dr. Lieftinck, to explore the possibilities of receiving further financial assistance from the Bank. Most likely this will be the major point to be raised by Mr. Sharef with you on the occasion of his forthcoming visit. It would appear that Israel is interested in obtaining loans for transport, agriculture and education projects.

5. The latest Bank loan to Israel ($15 million to the IDBI) was presented to the Executive Directors in September 1967 although the decision to make that loan had been taken several months earlier. A small economic mission visited Israel in August 1967 to establish Israel's creditworthiness at the end of the hostilities. The latest full economic report is dated May 1, 1967 and was prepared by a mission which visited Israel in November/December 1966. That report concluded, and the Economic Committee agreed, that the prospective availability of foreign capital from sources other than the Bank was adequate to Israel's prospective needs and therefore "consideration of further Bank lending to Israel should be deferred until such time as Israel's need for financial assistance from the Bank became clearer."

6. The information contained in the 1967 report is now out of date and the economic policy of the Government, which it reflected, has since undergone considerable change. At the end of 1966, when the report was drafted, a major policy aim of the Government was to stabilize the economy and to continue reducing the dependence of Israel on foreign capital. The large and growing external deficit on current account operations had been associated, in the fifties and early sixties, with a high rate of economic expansion but also with growing inflationary pressures and strains on domestic resources. To strengthen the competitive position of the domestic industries, the Government intended, therefore, to continue for some time the policies of stabilization and more moderate growth adopted in 1965. This resulted in a reduction of the current account deficit in the balance of payments from $569 million in 1965 to $465 million in 1966; a further reduction was registered in 1967. In the circumstances prevailing in early 1967, the prospective inflow into Israel of foreign capital from various sources other than the Bank was judged to be adequate for Israel's needs.

7. In the second half of 1967, however, a strong revival in economic activity began to take place due to a more expansionist economic policy on the part of the Government, high public consumption as a result of the war and also of a new and more confident business climate. Moreover, advantage has been taken of an exceptionally large inflow of capital from abroad (which amounted to an estimated $780 million for the whole of 1967) on account of donations and issues of Development Bonds.

8. We have very little information on developments since the beginning of 1968; it seems, however, that energetic growth policies are being pursued and that, as a result, the trade deficit is expanding again, reversing the trend of the past three years. Preliminary data indicate that the trade deficit for the first six months of 1968 was more than twice that of the first half of 1967.

9. The changed economic outlook, the Government's intention to seek a faster expansion of the economy compared to the past few years and the need to increase the competitive position of domestic industries and their exports, point to an increase in investments in the foreseeable future. It is likely that all these considerations are at the root of Israel's request for renewed Bank assistance. Of course, it would be of crucial importance to assess the prospects for capital inflows to Israel from sources other than the Bank; at the moment we have no basis to judge that. Foreign reserves are very substantial; gold and foreign exchange assets of the Bank of Israel increased by over $120 million since the end of 1966 and at the end of June 1968 they amounted to $745 million, or over one year's imports at the 1967 level (detailed balance of payments data, however, are not yet available). In view of the prevailing political and military tension in the area, one can, however, understand the desire of Israel to keep reserves at a very comfortable level.

Five-year Program

10. At present the five-year program does not contain any project forecasts for 1968/69 and 1969/70, but includes two transportation projects in subsequent years, as well as a loan to the development finance company of Israel. In view of the uncertainty regarding the eligibility of Israel as a borrower when the program was prepared, these forecasts can only be regarded as educated guesses and could be changed, as appropriate.

Recommendation

11. Should Mr. Sharef renew the request for financial assistance from the Bank and should his argument show a prima facie need for Bank assistance, I would recommend that, in the light of the substantial developments which have taken place in the economy over the last twelve months, the Bank send an economic mission to Israel in the fall of 1968. In view of the date of the last economic mission, a new report would, in any case, be required for the Executive Directors before a loan can be discussed at the Board.

12. The task of the mission should be to review the economic situation and prospects of the country with a view to assessing its needs for Bank assistance. The mission might also include specialists in the three sectors which the Israeli authorities have mentioned, which would simplify appraisals of projects if we should decide to undertake them in due course.

GATorelli/MPBenjenk:mct

cc Messrs. Knapp
Lejeune
Thompson
Bart

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FORM No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the record **DATE:** November 14, 1968

FROM: Maurice P. Bart MPB

SUBJECT: ISRAEL - Meeting between Governor Horowitz and Mr. McNamara

1. Governor Horowitz, accompanied by Ambassador Rabin and Mr. Meirav from the Embassy, met with Mr. McNamara on September 27. Also present were Messrs. Knapp, Friedman, Lejeune and Bart.

2. After thanking Mr. McNamara for accepting the Government's invitation to visit Israel, Governor Horowitz said that he wanted to make two points regarding Israel and the Bank respectively. His first point was that Israel would like to be re-admitted to the list of the Bank's clients. To back this request Israel could put forward a number of achievements, especially the very good utilization she had made of Bank loans in the past and her fast economic growth which had led Mr. Woods to cite her as a success story a year earlier. Governor Horowitz thought that Israel was an example for developing nations; she was widely using her experience for technical assistance to other countries, at a rate double that of the OECD countries, was currently training 10,000 foreigners and had sent 2,500 experts abroad in the last two years. She had done particularly well in agriculture which, with one million acres, was not only feeding the population but exporting as well. However, on the negative side, the balance of payments was not in good shape and showed a current deficit of $500 to $600 million. While this could be overcome, Israel needed more immigration and therefore more capital input in the short run though she did not need concessionary terms. She was undoubtedly creditworthy for Bank's loans.

3. Mr. McNamara recalled that 18 months ago, the Bank had thought that it would not be justified in pursuing lending to Israel as the latter's needs could be met by normal credit channels. However, as already agreed, he was prepared to send a mission in October to review the economic situation. The Bank would reconsider its position if this were justified.

4. Governor Horowitz pursued that the second point he wanted to make derived from Israel's interest in development and related to Bank and IDA resources. He recalled that against an expected population increase from 2 to 4 billion in the present century, the rate of economic growth in countries with a per capita income below $100 was 2 percent. In his opinion, the basic problem of the developing countries was how to get access to capital and to borrow the hard funds mostly available against their soft repayment possibilities. With capital

President has seen

markets throughout the world handling some $30 billion per year, the problem was not one of scarcity of funds but of repayment ability and he wanted to revert to what had been called the "Horowitz proposal" and to his interest equalization plan in a modified version. His suggestion was that the Bank should "go it alone" for the time being, pending the IDA replenishment, increase the scope of its own borrowings and relend in turn to IDA. In order to breach the difference between the Bank's and the IDA's interest rates, he would use the $75 million allocated to IDA, plus some of the IDA contributions plus, in the course of time, IMF dividends in the order of $30-$40 million. He thought that the standing of the Bank would offer an adequate guarantee to its lenders in the first years. He concluded that Israel had no direct interest in this plan except that of promoting development in the world. He had brought with him a revised version of his plan which he was prepared to leave with the Bank.

5. Mr. McNamara suggested that it would be useful if Governor Horowitz submitted again his plan at the Annual Meeting. Mr. McNamara assumed that the Governor would mention the additional guarantees from member Governments which the Bank would require since there was a basic difference between the Bank and the Inter-American Development Bank with regard to the security of their respective bonds.

cc: Mr. McNamara (2)
Mr. Knapp
Mr. Friedman
Mr. Lejeune

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FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the record **DATE:** November 14, 1968

FROM: Maurice P. Bart MPB

SUBJECT: ISRAEL - Meeting between Mr. Sapir and Mr. McNamara

1. Mr. Sapir, accompanied by Mr. Arnon (Ministry of Finance), Mr. Alexandroni (Economic Minister in New York) and Mr. Meirav (Economic Counselor at the Embassy) met with Mr. McNamara on September 30. Were also present Messrs. Knapp, Lejeune and Bart.

2. Minister Sapir started by an outline of the economic and defense problems confronting Israel. There had been substantial economic progress in the past year after three years of slow-down. At the same time, spending for defense increased substantially but this was not preventing the Government from pursuing a large expansion program including such major projects as the new 42" pipeline between Eilat and Ashdod and the strengthening of the industries for defense or of those with advanced technological features. He concluded by saying that the world sometimes wondered where Israel found the human energy for these achievements: she had no other choice.

3. Mr. McNamara said that he had come to know quite well the high calibre of Israel's government and leadership and was familiar with her economic performance. He was looking forward to visiting the country. In the immediate future the Bank was planning to send a mission to review the economy and determine whether it would be justified in resuming its lending to Israel. However, he would have expected countries with as high a per capita income and export level as Israel to find their capital requirements on commercial markets. The Bank mission would nevertheless go to Israel without prejudicing the outcome of its study and would take Israel's special conditions into consideration.

4. In response to a question by Mr. Sapir, Mr. McNamara said that he had no definite plans as to the timing of his visit, but he would like to go sometime even if it was just as a tourist to see old friends such as Mr. Ben Gourion and General Dayan.

cc: Mr. McNamara (2)
Mr. Knapp
Mr. Lejeune

President has seen

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Mr. Cherif Hassan March 14, 1969

James S. Raj

IVORY COAST - Tourism

Mr. Moshe Mayer, an Israeli businessman now located in Geneva, met Mr. McNamara on March 13 to outline his plans for developing a swampy lagoon area in Abidjan into a tourist complex, including a hotel and ancillary facilities, shops selling local handicrafts, etc. Mr. Mayer was accompanied by the Ivory Coast Ambassador. I was also present during the meeting. Mr. Mayer estimated that about 1,500 rooms more were required in order to cater to the current demand for tourist accommodation. His idea would be to develop the entire "Riviera" on the outskirts of Abidjan. He gave an account of his earlier hotel ventures in Liberia (Hotel Ducor) and Hotel Ivoire in Abidjan. He felt that the natural beauty of the area he had selected and the prospects of developing handicrafts which would be easily saleable to foreigners would be very good. He asked for financial help of the World Bank Group to carry his project forward.

Mr. McNamara agreed that the tourist potential in the Ivory Coast was very great. He had been impressed by the high quality of the handicrafts available for sale in the hotel in Abidjan in which he had stayed. He cautioned Mr. Mayer, however, that tourism was a new area of activity for the World Bank Group and our technical expertise in this field was not outstanding. Nevertheless, he wished to assure Mr. Mayer that all due consideration would be given to his project. He asked that he be informed of the progress of this matter once a month or so.

Mr. Mayer subsequently came to my office and left with me a diary of Mayer Enterprises Ltd. which gives some idea of the wide coverage of the activities of his group. He also left with me a copy of Fortune of January 19, 1966, in which there is a writeup about him.

Mr. Mayer is in New York during the next week, and I have arranged for him to meet me at 11:00 a.m. on Tuesday, when he expects to give us more details of his project. Please arrange for concerned people in the Bank Group to be present at this meeting.

cc: Mr. McNamara
Messrs. Bazin/de Azcarate (Africa Dept.)
Mr. Boyd (Tourism Dept.)
Mr. de Longuemar

JSRaj:am

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1619 Massachusetts Avenue, N.W., Washington, D.C. 20036
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April 24, 1969

Mr. Robert MacNamara
International Bank for Reconstruction and Development
1818 H Street
Washington D.C.

Dear Mr. MacNamara:

I am writing to you to request an appointment for Mr. Dov Zakin, Department of State International Visitor from Israel. Mr. Zakin is the Political Secretary of the Mapam Party. In terms of the Arab-Israeli conflict, the Mapam Party is generally recognized as being a moderate element in Israeli politics.

As you know, the people of Israel are ever concerned about the attitude of the United States toward their country. In the face of Four-Power negotiations to secure a settlement in the area, they are particularly concerned at this time. Consequently, one of Mr. Zakin's objectives in the United States is to ascertain as clearly as possible current American attitudes toward his country. Therefore, he would very much appreicate the opportunity to meet you and to hear your assessment of the situation in view of your long experience.

Furthermore, Mr. Zakin read with great interest your remarks before Congressional Committees concerning the new age of East-West relations when you were Secretary of Defense. He would like to hear what your current views are on the matter.

Our Embassy in Israel anticipates that Mr. Zakin will enjoy an even brighter career in Israeli politics. As the Mapam representative in the newly formed political party alignment, he meets with Prime Minister Meir weekly. Further, as the enclosed biographic sketch suggests, he has been very active throughout his life in the Kibbutz movement.

I shall take the liberty of calling your appointment secretary late Friday afternoon (April 25) to discuss the possibility of arranging an appointment with you during the course of the coming week.

Sincerely,

William A. Maxwell

William A. Maxwell

GOVERNMENTAL AFFAIRS INSTITUTE
1619 Massachusetts Avenue, N.W., Washington, D. C. 20036 · Telephone (202) 265-8300

Biographic data on Mr. Dov Zakin, of Israel, a participant in the International Visitors Program sponsored by the Department of State. Program arranged by William A. Maxwell 256-69-L

NAME:	Dov Zakin
POSITION:	Secretary of the Mapam (United Workers Party) (Mapam is aligned with the Labor Party; the alignment holds 63 of 120 seats in the Parliament - Knesset.) Member of the Executive Committee of Federation of Kibbutzim (the largest such federation in Israel).
ADDRESS:	Kibbutz Lehavot Habashan, Upper Galilee
BORN:	September 29, 1922 in Baranowicz, Poland
MARITAL STATUS:	Married; three children (ages 12 to 20)
PAST POSITIONS:	Official Spokesman of Mapam Head of the Department of Political Education of Mapam Staff Expert, Department of Arab Affairs of Mapam Secretary of Kibbutz Lehavot Habashan
ACADEMIC TRAINING:	Tel Aviv University, B.A. in Social Sciences, Economics and Military Strategy, 1967 Ben Shemen School
PUBLICATIONS:	Has written articles for several Israeli newpapers, including Al Hamishmar, Maariv and Bashaar.
LANGUAGES:	English, Hebrew, Arabic, Russian
TRAVELS ABROAD:	Twice in U.S.; 1961-63 as Educational Director of Hashomer Hatzair (Mapam Kibbutz Movement) Youth Movement; 1967, for one month stay lecturing about Israel. Western Europe, India
DIETARY RESTRICTIONS:	None
SPECIAL INTERESTS:	Sight-seeing, spectator sports

(OVER)

7

Mr. McNamara - to see, please.
RBS 6/17

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

CONFIDENTIAL

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 16, 1969

FROM: Michael L. Lejeune

SUBJECT: Israel - Mr. McNamara's Meeting with Finance Minister Sharef

Mr. McNamara met with Mr. Sharef, Minister of Finance, on the afternoon of June 2, 1969. Mr. Sharef was accompanied by Mr. Nedivi, his Personal Assistant, Mr. Alexandroni, Economic Minister in the U.S. normally based in New York, and Mr. Meirav, Economic Adviser in the Washington Embassy and the Bank's day-to-day contact.

The Minister said that from reading the draft economic report prepared by the World Bank he felt that a case had been made for lending to Israel, and he was looking forward to the prospect of borrowing further from the Bank. Mr. McNamara explained that he was still considering whether it would be possible to recommend to the Executive Directors that the Bank lend to Israel. He had to confess to the Finance Minister that Israel presented the President of the Bank with serious problems in making such a recommendation. With a relatively high per capita income, Israel was among those countries to which the Bank could only lend if there were special circumstances. Moreover, Israel planned for and usually achieved an unusually high rate of growth which brought into question whether it needed so much external assistance. It might need less if it were ready to accept a rate of growth more in line with that of most other countries. Thirdly, an unusually high proportion of Israel's resources were applied to defense. Mr. McNamara said he well understood the problems which faced Israel and he, personally, admired the way in which Israel had tackled their problems and would like to help them, but the Minister must appreciate it was not easy to justify lending to a country like Israel under the circumstances mentioned above when there was so many calls on the Bank's resources by member countries which were in a much more difficult position. If the Bank were to lend it would have to be for an obviously sound and productive project. It seemed to him that agriculture might be a sector which would seem to be deserving.

The Minister mentioned an airport project and also road projects, but by the time the conversation was concluded it was understood that the Bank would send a mission to identify possible projects in the agricultural sector, most probably for an agricultural credit, that on his return to Israel the Minister would set people to work on preparing such a project, and that the Bank's decision on whether to lend would be rendered after consideration of a suitable project. While it was understood that the mission would go soon, no timing for reaching a conclusion was discussed.

There was considerable discussion of the problems of absorbing an increased number of immigrants, including some from Russia. The Israelis agreed to provide the Bank with a memorandum on this subject.

The Minister invited Mr. McNamara to visit Israel. Mr. McNamara said that he was anxious to go sometime but could not as yet fix a date.

cc: Mr. McNamara
Mr. Knapp
Mr. Benjenk
Mr. Springuel
Mr. Steckhan

President has seen

MLL:neb
(Unsigned, as typed from dictation after Mr. Lejeune left on official travel)

FORM NO. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM CONFIDENTIAL

TO: Mr. Robert S. McNamara DATE: June 2, 1969

FROM: Michael L. Lejeune

SUBJECT: Israel - Appointment with Finance Minister Sharef

In the memorandum I sent you as a brief for your meeting with Mr. Sharef, the Finance Minister, this afternoon, I said that Mr. Springuel would return from Israel this morning and if there were any new developments I would let you know.

The only important development is that having heard from Dr. Lieftinck about five-year programming in the Bank, the Israeli Government proposes to put forward a five-year program of Bank financing for Israel. They have in mind a total of about $200 million for the five years. (This may be compared with the $85 million in our program for Israel for the three fiscal years 1970-72, with nothing for the final two years.)

Mr. Springuel made it clear that the Bank was not yet ready to render a decision on whether to renew lending to Israel, that five-year programming was an internal exercise, and that commitments to any country were made project by project and not for global amounts over periods of time. He gave it as his opinion that even if the Bank were to renew lending to Israel it is unlikely that the Bank would be prepared to lend on the scale of $200 million over five years.

Should you wish more detail, I attach a copy of Mr. Springuel's back-to-office report dated June 2, 1969. Paragraph 1 and paragraphs 20-24 cover the ground sufficiently for the purposes of your appointment.

M L Lejeune

cc: Mr. Knapp

Mr. McNamara
Minister SHAREF is likely to be accompanied by
Mr. NEDIVI, his personal assistant
Mr. ALEXANDRONI, the Economic Minister stationed in N.Y.
Mr. MEIRAV, the Economic Counsellor stationed in Washington.

Mr Lejeune has asked to attend.
RBS 6/2

FORM No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

cc Mr. Benjenk

OFFICE MEMORANDUM

TO: Mr. Michael L. Lejeune

DATE: June 2, 1969

FROM: R. H. Springuel RHS

SUBJECT: Israel - Operation Mission (May 19-30, 1969)
Back-to-Office Report

General discussions

1. Shortly before my mission, Dr. Leftinck visited Israel and explained to the Government the five-year planning system now in use in the Bank. In this framework the Government wants to borrow about $200 million to be disbursed roughly over the next five years. Governor Horowitz explained this approach to me and Mr. Sharef will probably raise it with Mr. McNamara on June 2, 1969.

2. The Government estimates the external financing gap, after financing by external Jewish communities, at about $500-800 million over the next five years. Its tentative financing plan is as follows:

	$ million	
Bank financing	200	- 200
Draw down in reserve (presently at $550 million)	200	- 300
Other sources (unspecified)	100	- 300
Total	500	800

3. The Government estimates that if it increases exports by 16% per annum (average 15% in last several years) and imports by only 10% (average 13% in last several years), the balance of payment gap would start falling in the mid 1970's and would disappear at the end of the decade. It argues that substantial Bank help should be forthcoming during the next few years considering Israel has borrowed from the Bank only $110 million so far ($98 million outstanding including $ 11 million still undisbursed).

4. The planned reduction in the rate of increase of imports will probably be difficult to realize. As a step in that direction the Government announced on May 28 a substantial increase in taxes on consumer goods (mainly durable). This required political courage since elections will be held in November 1969 and the Government has promised last year to avoid tax increases. With substantial investments the planned increase of exports can probably be achieved, but most of the equipment needed will have to be imported and new productions will entail increased raw materials imports. Thus external help will probably be needed for a period longer than estimated by the Government.

5. I repeatedly emphasized that the Bank had not taken a decision on whether to renew lending and that such decisions were not normally taken in principle, but on the basis of specific projects. I also said that the five-year lending forecasts were made for internal planning purposes only and were not discussed with borrowers, as total size. Prospective borrowers could, of course, make their own estimates as to orders of magnitude through the amount of loans under active consideration. In any case, if the Bank were to consider projects in Israel, it was unlikely that it would be prepared to take as much as $200 million of potential financing under consideration.

6. The Government wants advice on the identification and preparation of projects eligible for Bank financing, in the fields of agriculture, industry, highways, airport and education. I was shown a great number of very impressive realizations often strongly export-oriented. There is little doubt that a large scale lending program could be quickly and efficiently organized and implemented.

Agriculture

7. The agricultural developments for which Bank financing is requested are

	Total Cost - ($ million)	Foreign Exchange
Development of:		
Water resources	35	11
Drainage and soil conservation	10	3
Export crops	37	13
Import substitution	13	7
Family farms mechanization	14	7
Arab villages (pre-1967 border)	2	1
	111	42

8. Ninety percent of existing water resources are already tapped (including very substantial pumping from the sea of Galilea) and new developments consist essentially in new equipments to save water and extension of the existing irrigation network. The new export crops are mostly off season flowers, vegetables and fruit, and very large increases have already been achieved. Mechanization of family farms is needed to bring their efficiency to that of collective farms (Kibbutz).

Mr. Michael L. Lejeune June 2, 1969

Arab villagers have, in theory at least, access to all programs and the subproject proposed would be for modest additional help. I was told a substantial program is being developed in the new territories. Bank help is not requested for it although it was hinted it would be welcome.

9. Bank guidance would be particularly welcome on institutional arrangements. The existing supervised agricultural credit scheme involves in various degrees three specialized banks, the Ministries of Agriculture and Finance, the Planning Office and the Bank of Israel. Lack of time did not permit me to investigate the details. Some information will be sent to the Bank, but an early visit of an agricultural credit specialist would be necessary.

Development Bank (IDBI)

10. Specific amounts were not discussed with the Government or IDBI. Industrial development for exports try to anticipate new fashions (textiles, furniture), use new technologies (small civilian aircrafts, electronics, complex chemical) and in general incorporate in imported raw materials an added value based on technical know-how.

11. Disbursements under the present loan are slow and an extension of the closing date will be requested. IDBI suggests that Bank procedures for the approval of subprojects are too cumbersome. An enterprise must move extremely fast if it is to catch new fashion or technological trends. By the time the full information needed for the Bank is assembled, evaluated by IDBI and transmitted to the Bank, a good part of the profits to be expected from the new fashion and/or technology may be appropriated by those who had the capital to expand without delay. This is apparently one of the reasons why few large projects ("A" projects) have been submitted to the Bank under the second loan.

12. IDBI gave me a copy of its loan application to Eximbank for a Phosphoric Acid plant (166,000 tons capacity) based on local phosphate and magnesium chloride from the Dead Sea Works (Bank's borrower). The project is proposed by the Arad Chemical Industries Limited owned by the Government (50%) and Madera (50%), a wholly owned subsidiary of Allied Chemical. Most of the production would be exported and a long-term sales contract for 50,000 tons annually has been signed with an Italian consumer. Total cost of the project is $39 million of which $26 million is to be borrowed. The request to Eximbank is for a $5 million loan for US equipment. IDBI wants to know whether we could consider committing the balance of our second loan (about $4 million) for the project.

Highway projects

13. The projects tentatively submitted are:

	Total Cost	Foreign Exchange
	($ million)	
Main Coastal Highway	40	17
Other inter-cities roads	47	20
Other urban by-passes	7	3
Roads in the planning stage	20	8
	114	48

14. Ultimately the main coastal highway will be a four-lane restricted access freeway from the north of Haifa to the port of Ashdod (financed by the Bank). Certain sections have already been imrpoved under Bank financing (notably north of Tel Aviv) and other stages would still be needed after the improvements proposed. Main justification of the project would be to provide a better access to the port of Ashdod and to relieve the increasing transport congestion in the center of the country. On the other hand, part of the other roads would provide fast access to new agricultural regions which is needed for the development of off season fruit and vegetables exports.

15. City accesses and urban by-passes are the responsibility of the Ministry of Transportation while the other roads are the responsibility of the Public Works Department (Ministry of Labor). For the first ones, the Government is prepared to consider international competitive bidding. For the second it wants to maintain present arrangements (main construction responsibility to the Public Works Department with small sub-contracting essentially reserved to local contractors). This question was extensively discussed two years ago when a second highway project was being considered by the Bank and the Government has not changed its position.

Lod Airport Project

16. The project presented to the Bank consists of:

	Total	Foreign Exchange
	($ million)	
Repairing Air Terminal	5	3
New Hall (No. 3)	3	2
Cargo terminal	3	2
Runways	8	5
Equipment and others	5	4
Existing terminal	24	16
New terminal (completion 1975)	17	11
Total	41	27

17. Repairs of the existing terminal (recently burned) are far advanced and construction of part of the new runways has started. Even though it is not formally acknowledged, the new runways seem to be needed at least in part as a reserve military facility. The justification for a new hall in the existing terminal when a new terminal is contemplated in a few years seems doubtful. Cargo terminal, equipment, and possibly the new terminal could form the basis for a project. The cargo terminal will soon be needed for high price agricultural exports. The need for the other elements is more difficult to assess. The Government intends to create an autonomous, self-financed airport authority.

Education Project

18. The preliminary education project would consist of:

	Total Cost - ($ million)	Foreign Exchange
Technological institutes	12	2
Physical sciences and medicine	16	2
Scientific equipment	29	29
Total higher education	57	33
Primary education for immigrants	74	9
Total	131	42

19. The Government was not yet prepared to present a project and no discussion or visits were organized. I simply pointed out that the Bank finances only education projects directly linked with economic development and that it was doubtful such link could be demonstrated for primary education or for medical science.

Summary and Conclusions

20. The Government wants to submit to the Bank the following projects for disbursements over the next five years (roughly by order or priority):

	Total Cost - ($ million)	Foreign Exchange
Agricultural credit	111	42
Development Bank	20	20
Highways	114	48
Airport	41	27
Education	131	42
Undetermined	-	11
Total	417	200

Mr. Michael L. Lejeune June 2, 1969

21. The five-year lending program is at present as follows:

(no lending in Fiscal Years 1973 and 1974)

($million)	Fiscal Years 1970	1971	1972	Total
Agricultural credit	15			15
Education			10	10
Transportation (Ports and Highways)		30		30
DFC	—	15	15	30
Total	15	45	25	85

22. Taking into account the specific problems likely to be encountered in projects and assuming that the amount of $85 million should not be exceeded, the following lending program could be considered:

($ million)	Fiscal Years 1970	1971	1972	Total
Agricultural credit	30			30
Education			15	15
Transportation (highways)		20		20
Development Bank (IDBI)	—	20	—	20
Total	30	40	15	85

23. A very large part of such program would directly foster exports. Because of its small size relatively to the original submission, the Bank could easily avoid potentially controversial elements. On the other hand, the program would fall seriously short of the Government's objectives.

24. A project identification and preparation mission would be needed in June or July for the agricultural credit project. The next IDBI supervision mission would determine the need for the next project. A transportation and an education mission would be needed in early 1970. The Government is aware that the visit of such missions would not prejudge whether the Bank would be lending or not.

FORM No. 57 | INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

DECLASSIFIED
MAR 22 2013
WBG ARCHIVES

Pls return to me Friday 6/6
[illegible]
have not rec'd Springuel's report [illegible] the [illegible] questions

TO: Mr. Robert S. McNamara

DATE: May 29, 1969

FROM: Michael L. Lejeune

CONFIDENTIAL

SUBJECT: ISRAEL - Meeting with the Minister of Finance on June 2, 1969

1. The Minister of Finance of Israel, Mr. Ze'ev Sharef, will call on you on June 2 at 5 p.m. Below is a short biographical sketch of Mr. Sharef and a note on the pending question of resuming Bank lending to Israel. The five-year lending program, as agreed with you during the last review, is attached. More information on possible projects is expected from Mr. Springuel's mission to Israel. He will return on Monday, June 2, and I will report anything significant to you by mid-day.

Biographical Note

2. Mr. Sharef was born in 1906 in the Bukovina (Austro-Hungarian Empire, now Soviet Union). In 1925 he emigrated to Palestine. In his professional career, he has held the following positions: Secretary of the Political Department of the Jewish Agency from 1943 to 1947; Secretary of the Government from 1948 to 1957 and General Director of the Prime Minister's Office until 1959; 1951-52 Civil Service Commisioner; 1954 to 1961 Head of the Revenue Department of the Ministry of Finance; 1962-66 Chairman of the Ports Authority; 1964-65 Adviser to Prime Minister Levi Eshkol; 1965 elected as Member of the Knesset. Since 1966 Minister of Commerce and Industry and since August 6, 1968 also Minister of Finance.

Mr. Sharef's Previous Visit

3. As you may recall, Mr. Sharef visited you last on September 6, 1968, one month after he was appointed Minister of Finance. During his visit, he explained the need of his country for further financial help from the Bank. He stressed that after the Six-Day War of June 1967 economic conditions had substantially changed: soaring economic activity had followed previous stagnation and large scale unemployment. Israel was aiming at maintaining a high level of economic activity. But with high defense needs (about 20 percent of GNP) and the need to absorb some 30,000 new immigrants annually, the growth target appeared achievable only with a continuous inflow of foreign capital.

4. You replied that the Bank would send an economic mission to evaluate the general economic situation and Israel's specific financial needs. You made it clear then to Mr. Sharef that Israel would have to show that it still needed aid from the Bank (which was essentially concessionary aid) after having tapped all other possible sources of capital.

An economic mission was sent to Israel in October 1968. Their conclusions are summarized in the Economic Policy Memorandum of February 28, 1969 (attached).

Economic Situation

5. Economically Israel has been doing well over the last two decades: the growth rate of GNP (in real terms) has been averaging 10 percent and that of per capita income 5 percent. Until 1966 this growth was accompanied by rapidly rising prices and a widening foreign exchange gap. In the mid-1960's, however, the Government initiated a deflationary policy which resulted in a slowdown of real growth. The balance on current account, which had been persistently negative in the past, is widening. In spite of a rapid increase of exports (18 percent in 1968) and although there are good prospects of a further sustained increase (12 percent a year) the likelihood that the gap (ranging in recent years between $440 and $600 million) will be closed is low.

6. Foreign exchange reserves of the Central Bank declined from the 1967 high of $715 million to $663 million at the end of 1968. A further decrease of over $100 million is expected this year, to a level which the Israelis feel to be the lowest tolerable in their special situation. An essential element in Israel's balance of payments are foreign donations which in the past several years have ranged between $300 and $520 million a year or up to 2/3 of its resource gap. The amounts of donations are variable from year to year: feelings of Jewish solidarity appear to prompt larger donations at times of stress for Israel, then the flow decreases when the immediate danger is over. Mr. Sharef is likely to point out that the inflow of private donations and the sales of development bonds observed after the Six-Day War are now tapering off. Assistance received from U.S. AID has been receding for years. Substantial new PL 480 assistance was granted in 1968, but no new soft loans were committed after the 1967 war (the last AID Loan of $9.5 million was in 1966). The Germans reduced their annual long-term aid commitments from $40 million to $35 million in 1968.

7. The Government proposes to maintain a growth rate of around 10 percent in the future. Since most of the impetus for it is expected to come from industry, especially export industries, strong measures to encourage exports and increase the competitiveness of domestic industry will be required.

8. In addition to stimulating production of already established industries, Israel will have to create new jobs for some 30,000 immigrants. In the past a large proportion of Israel's immigrants came from industrialized countries, particularly Eastern Europe, but more recently the proportion of those coming from developing countries has risen with the result that productivity may have been adversely affected.

Mr. Robert S. McNamara   May 29, 1969

9. A large amount of resources may be expected to continue to be diverted to defense expenditures (about half of the total current budget expenditures) and, therefore, will not be available for investments. Re-direction of part of these resources to productive investment is hardly to be expected before conditions in the Middle East become more peaceful. As things stand now, there is a deficit of public savings of the order of 15 percent of the total current resources, and this is a major weakness in the economic performance of Israel.

10. Since the June war, prices have remained relatively stable in spite of the deficits incurred by the Government. At present inflationary pressure is kept in check by an undestanding among trade unions, entrepreneurs and the Government to hold wages and prices down. Should available resources (external as well as internal) fail to keep in step with rising demand pressures, the Government might well have to take strong deflationary measures as in 1966, when economic growth was retarded and unemployment rose to as much as 10 percent of labor force.

11. The main conclusion of the Economic Mission was that Israel is creditworthy for borrowing on conventional terms. It recommended, however, that the Bank inform the Government of Israel that lending would depend on adequate performance, particularly in respect to internal financial stability, growth of exports, and public savings. The Mission also noted that Israel would greatly benefit from improving investment and financial planning.

<u>Issue To Be Discussed</u>

12. The only issue likely to be raised by the Minister is the question of whether the Bank has yet decided to renew lending to Israel. At the time of the Five-Year Program Review, you decided this affirmatively, but said you did not yet wish to tell the Israelis, though we should begin to identify suitable projects. Mr. Springuel's mission to Israel was described as a mission to acquaint him with a country for which he was newly responsible but had not previously visited. I have no doubt that the Israeli authorities took the opportunity to discuss feasible projects with him.

[signature]

cc: Mr. J. Burke Knapp

Attachment

Form No. 61-EC
(7-65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

ECONOMIC COMMITTEE

EC/O/69 - 30

February 28, 1969

Israel: Economic Policy Memorandum

1. The attached Economic Policy Memorandum on Israel from the Europe, Middle East and North Africa Department (EC/O/69-30/1, dated February 28, 1969) will be discussed at an Economic Committee meeting to be held on Wednesday, March 5, 1969 at 2:45 p.m. in the Board Room.

C. F. Owen
Secretary

Attachment

Secretary's Department

DISTRIBUTION

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Also: Mr. McNamara, Mr. Knapp, Sir Denis Rickett and Mr. Shoaib.

February 28, 1969

ECONOMIC COMMITTEE

Economic Policy Memorandum from
Europe, Middle East and North Africa Department

ISRAEL

I. Introduction

1. The Bank has made five loans to Israel for a total of $109.5 million. They have helped to finance projects in infrastructure (port and roads), potash and industrial development. Effective loans held by the Bank on December 31, 1968 were $98.6 million, of which $13.3 million were still undisbursed.

2. On February 28, 1967 the Economic Committee recommended that in view of (a) the new direction of the Government's economic policies, implying a smaller need for foreign capital in the next few years, and (b) the prospective availability of adequate capital from sources other than the Bank, consideration of further Bank lending to Israel should be deferred until such time as Israel's need for financial assistance from the Bank became clearer. The recommendation was based on the findings of an economic mission which had concluded that in view of the rapidly declining rate of immigration and the policy of economic retrenchment adopted by the Government in 1965, the country had good prospects of obtaining over the next few years an inflow of foreign capital from sources other than the Bank commensurate with its projected needs, even when taking into account the fairly heavy debt maturities during that time and the many uncertainties in the situation. This assessment, however, specifically assumed there would be no major changes in Israel's foreign relations or in immigration which could affect both the need for external finance and its supply.

3. In accordance with the Committee's recommendations, the Bank ceased lending to Israel after the last loan to IDBI, the Israeli development finance company, in September 1967. However, last summer the Israeli Government presented an urgent request for the Bank to resume lending to the country particularly for projects in agriculture, road transport, tourism and higher education. It was pointed out by the Israelis that in the meantime substantial changes had taken place in the political and economic conditions of their country. The Six-Day War with the Arab States in June 1967 had far reaching consequences not only for Israel's international relations but also for its economic outlook, particularly

with respect to immigration, the fiscal situation and balance of payments. Moreover, the policy of economic retrenchment pursued by the Government during 1965/66, which had led to a major recession and to wide spread unemployment, has since given way to a renewed commitment to rapid growth at full employment.

4. In response to this request, an economic mission was sent to Israel in October/November 1968 to study the recent changes in economic conditions and policies, and to evaluate their implications for the country's need and eligibility for further Bank financing. The principal findings of the mission are presented in the attached Summary and Conclusions of the draft economic report "Current Economic Position and Prospects of Israel" (EMA-7).

II. Statement of Issues

5. The issues to be considered by the Committee are (a) whether the recent changes in economic conditions justify the resumption of Bank lending and (b) if the answer is affirmative, whether future Bank lending should be linked to certain performance conditions.

III. Discussions of Issues

6. As a result of rapid economic growth in the last two decades, Israel's per capita income has reached a level comparable to that of industrialized European countries. However, contrary to other high income countries, Israel's economy depends heavily on a sustained inflow of foreign capital. The structural imbalance between import requirements and foreign exchange earnings is a reflection of the fact that rapid economic development started only two decades ago. Although considerable progress has been made in the past to reduce the country's import surplus at least in relative terms, Israel still has a long way to go to become self-supporting. Without the inflow of very sizeable foreign resources economic life in the country would be severely weakened, and the level of production, consumption and investment would fall drastically.

7. The country's dependence on external support has become more acute since the 1967 war. In the first place this is the consequence of a sharp increase in the defense burden. In addition, there has been a considerable rise in the number of immigrants to be absorbed by the economy. Net immigration has increased from only 4 thousand in 1966 to some 20 to 30 thousand a year, one-third of which are now arriving from industrialized countries (USA and Europe) while the rest continues to come from less developed areas (mainly Eastern Europe and the Middle East). At the same time the Government has given up the policy of economic retrenchment which had led to a major recession during 1966/67. As economic activity expanded rapidly in the second half of 1967 and in 1968, the current deficit in the balance of payments again assumed very large proportions. Over the medium-run, the

deficit is expected to remain at a high level because import requirements are likely to rise fast with the growing capital intensity of the economy and of exports.

8. On the other hand, the special capital transfers available to Israel - private donations, development bonds and reparations - have also increased. But as is explained in the economic report the flow of such funds will probably not be sufficient to fill the country's large foreign exchange gap in the next few years. Foreign reserves have already started to decline in 1968 and are expected to fall more rapidly in the current year. Thus, unless capital is provided from additional sources the Government may have to take steps to slow down economic growth even if this led to another recession as in 1966/67. Such a development could not only create substantial unemployment and make the absorption of new immigrants more difficult but it might also delay further the time when Israel could enter the phase of self-sustained growth.

9. There is little doubt that over the next few years Israel would be able to absorb effectively additional foreign capital such as World Bank loans, and that under appropriate policies these funds could make a contribution to the country's economic growth. Israel's past performance in this respect has been remarkable, and there appears to be no lack of viable projects which would justify the investment of Bank money. There is also little danger that Israel will encounter a serious debt problem in the foreseeable future as a large proportion of capital inflows will continue to be available at concessional terms or in the form of grants while exports are expected to grow fast. The country therefore appears to be creditworthy for additional borrowing on conventional terms.

10. However, there are certain weaknesses in Israel's overall economic performance which would require special attention by the Bank if lending is resumed in the near future. The most important one is the apparent inadequacy of national savings, particularly in the public sector. Although the inflationary wage-price spiral which had strained the development pattern of previous years, has been brought under control since the recession, new excess demand pressure is presently building up, originating mainly from heavy defense spending. In 1968, the direct budgetary outlays for this purpose were possibly as much as 20 percent of GNP, or almost half of total government expenditure. Moreover, the country's own defense industry is expanding rapidly, already representing a sizeable share of total industrial output. In assessing the need and justification for such a heavy defense burden it is being pointed out by the Israelis that in their position strong defense forces are required to safeguard the very existence of the state. Besides, to a certain extent the foreign exchange component of defense expenditure appears to be self-financing in the sense that contributions from World Jewry tend to be higher when the security of the nation is at stake.

11. Internally, however, the country will have to mobilize more local funds for the financing of budget deficits if defense spending continues at the present high level. Although the tax burden is already heavy - some 30 percent of GNP - additional sources of government income will have to be found if deficit spending is to be kept within reasonable limits. In part, this is required because inflationary pressures might otherwise weaken the country's export position. In addition, shortage of public savings is already restraining investment which in turn may well become a major bottleneck for future economic growth.

12. The present vulnerability of Israel's internal financial position and its possible implications for exports and investment, appears to be significant enough to make the development of local savings a pivotal indicator for the assessment of the country's economic performance. Given the high per capita income and the fairly advanced stage of the economy there seems to be a case for the Bank to insist on continued and adequate domestic savings efforts as a condition for future financial assistance. It is, therefore, suggested that if lending to Israel is resumed, the Bank should make it understood to the Government that such lending would only be continued if the country succeeds in maintaining internal financial stability, fast growth of exports, and adequate investments in the public sector.

IV. Conclusions and Recommendations

13. In view of the changes in Israel's general economic and political situation since it was last reviewed by the Committee, and consider the higher rate of immigration, the extraordinary defense burden and the renewed commitment of the Government to rapid economic growth, which together are expected in the next few years to create a higher demand for foreign capital than appears to be forthcoming from sources other than the Bank, I recommend that:

(a) the Bank should be prepared to resume lending to Israel;

(b) the Government should be informed that continuation of lending would depend on adequate economic performance particularly in respect to internal financial stability, growth of exports, and public investment.

Michael L. Lejeune
Director
Europe, Middle East and North Africa
Department

Attachment Summary and Conclusions of the Report "Current Economic Position and Prospects of Israel" EMA-7, dated February 17, 1969.

SUMMARY AND CONCLUSIONS

(from Economic Report "Current Economic Position and Prospects of Israel")

i. Israel's past economic performance has been remarkable. Against great odds such as a conspicuous dearth of natural resources, hostile neighbors and the need to provide a large inflow of immigrants with housing and other facilities, real GNP has been growing at an average annual rate of some 10 percent since 1950 while per capita production increased by an average of 5 percent. These achievements were largely the result of two factors: a capable and determined population with a broad base of well-educated and energetic people who proved able to overcome the difficulties of economic development with great ingenuity; and a relatively large and continuous flow of foreign capital originating chiefly from private donations of American Jews and from reparation payments by West Germany. Israel's "economic miracle" would have been impossible if one of these two growth factors - human skill and foreign capital - had been lacking.

ii. At present, Israel appears to have little in common with underdeveloped countries. Her per capita income is approximately the same as that of the industrialized European countries and in some fields - particularly in agriculture and education - her achievements are comparable to that of the most advanced nations. The important industrial sector, on the other hand, still needs considerable protection although it is now in the midst of a modernization process. Above all, Israel's economy still has a long way to go to become self-supporting. The present high level of economic activity is kept alive largely by the continuous inflow of foreign capital provided mostly on concessional terms. Without these external resources which augment the country's foreign exchange earnings by about one half, Israel's economic life would be severely weakened, and the level of production, investment and consumption would fall drastically.

iii. The heavy dependence on foreign resources is not a reflection of poor export performance. On the contrary, Israel has been very successful during the past in increasing its own foreign exchange earnings. Between 1950 and 1968, exports of goods and services have risen from $45 million to $1,120 million or at an average rate of 20 percent a year. But the rapid expansion of GNP during this period led to a parallel growth of imports which rose from $333 million to $1,735 million or at about 10 percent per annum. Thus, even though the country's reliance on foreign capital inflows decreased in relative terms, the absolute amount of the external gap continued to rise. Under the circumstances, the Government has made great efforts to mobilize the foreign resources to finance the persistent import gap. However, as this gap rose in absolute terms, the authorities became increasingly concerned about the prospect of a shortfall in the supply of foreign funds which would prevent the continuation of fast economic growth at full employment.

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iv. The first signs that such a situation was approaching appeared in the mid-1960's. Up to that time, net foreign capital inflows were sufficient not only to finance Israel's current account deficit but also to permit the accumulation of substantial foreign exchange reserves. By 1964, however, the external deficit on current account had risen to a record level of $573 million. As a continuation of past trends would have led to even higher deficits, for which foreign financing was not assured, the Government became concerned

about the possibility of large-scale losses in exchange reserves. Accordingly, it decided to curtail the foreign trade deficit through monetary restrictions and a slow-down in public spending, despite the fact that signs pointed to a decline in economic activity. As a result, economic growth came to a virtual standstill, while unemployment rose to about 10 percent of the labor force. In 1967, the economy began to recover from this setback largely because of a massive increase in defense expenditure since the war with the Arab states, and new confidence in the country's political and economic future which has stimulated private investment activity. As rapid growth was resumed, however, the current account deficit in the balance of payments rose quickly to an estimated $600 million in 1968 and may be even higher this year if the present boom continues. Until mid-1968, the generous donations of World Jewry in the wake of the last war have enabled the country to finance the increased gap without any significant losses in reserves. But as the flow of such donations has already tapered off somewhat from the high 1967 rate reserves have started to fall in the second half of 1968, and more substantial losses may be expected for 1969.

v. Public deficits also assumed very large proportions because the increase in public spending was not matched by a similar rise in domestic revenue. However, despite the mounting pressure originating from these deficits, internal prices have so far been remarkably stable. During 1967, the consumer price index rose by only 1.6 percent while wholesale prices showed even lesser increases. In 1968, the rise in prices probably did not exceed 3 percent on the average. The relative price stability is partly the result of a higher liquidity preference of the public caused by the 1967 political crisis and the slowdown of economic activity during the recession. Even more important, however, was the fact that the Government in cooperation with the trade unions and employers adopted an incomes policy which led to a virtual freeze of basic wages and salaries since early 1966. This policy of price and wage restraint is a complete break with Israel's past development pattern which was characterized by strong inflationary pressure and a fast moving price-wage spiral. But the present balance is rather precarious mainly because the restraint on wages and salaries is not being matched by equal efforts to reduce public sector deficits. There are already indications that these deficits are creating excessive demand on the country's resources and that it will be difficult to maintain relative price stability in a fast growing economy without increasing the public savings effort.

vi. The Government's longer term development strategy aims at maintaining a high rate of economic expansion accompanied by a rapid modernization of production facilities. The expansionary policy is motivated by the need to absorb an increased flow of immigrants, to broaden the economic basis for the heavy defense burden, and to prevent the recurrence of a recession with large-scale unemployment. At the same time, the Government continues to strive for a reduction in the country's reliance on non-commercial capital inflows. It is expected by the authorities that with rising efficiency particularly of the manufacturing sector, Israel will become more competitive in the world markets, and that exports will continue to grow at a faster percentage rate than imports so that in the longer run, the trade gap would be narrowed at a higher level of income and production. Over the medium run, this would still entail large current deficits in the balance of payments, which are not likely to be fully

financed by the special capital transfers available to Israel - private donations, development bonds and raparations - thus forcing the country to draw down its reserves, and to mobilize additional sources of capital.

vii. Whether this strategy will be successful is still an open question, although some achievements can already be observed. Exports of goods and services have risen by about 18 percent in 1968 and prospects for further sustained expansion at an annual rate of about 12 percent are fairly good. Imports, which rose strongly after the recession, are likely to grow at a slower rate of some 9 percent a year assuming that GNP expands at about 8 1/2 percent. Further efforts will have to be made by the Government to promote new export ventures, to generate additional domestic savings and to secure a reasonable degree of internal financial stability. In addition, there is need for improvement in economic planning and resource allocation while recent attempts to strengthen the international competitiveness of local industries should be continued.

viii. If Israel does not succeed to mobilize sufficient funds to fill the future gaps in the balance of payments, here reserves may well decline to a point where for economic and security reasons further losses cannot be tolerated. Under the circumstances, the Government would probably take steps to slow down economic growth even if this led to another recession as in 1966/67. Such a development would not only create substantial unemployment and make the absorption of new immigrants more difficult but it might also hold back expansion of export industries, thus delaying further the time when Israel could enter the phase of self-sustained growth.

ix. Israel's medium- and long-term external public debt has risen fast in recent years, reaching a total of just over $1.5 billion in mid-1968. In addition, there were some $80 million short-term obligation on that date. Interest and amortization payments on public debt grew apace; but as foreign exchange earnings have risen even faster, the ratio between service payments and gross earnings has declined from some 20 percent in the early 1960's to about 14 percent in the recent past. For 1969 the service payments are scheduled to reach a peak of $175 million, falling off to an average of $113 million over the following four years. Assuming that foreign exchange earnings will rise at the rate projected above, the debt service burden on existing obligations would fall from its present 14 percent to only 6 percent in 1973. Thus even if the country continues to borrow abroad on a large scale the total debt service burden on existing and new loans is unlikely to rise in the foreseeable future, particularly as a large share of the new loans - Development Bonds and bilateral aid - will be obtained on concessional terms. Israel therefore appears to be creditworthy for additional borrowing on conventional terms.

Report EMA-7
Europe, Middle East and North Africa Department
February 17, 1969

Form No. 49

May 26, 1969

IBRD/IDA 5 YEAR LENDING PROGRAM
FOR ISRAEL (COUNTRY)

PROGRAM: SECTOR PROJECT NAMES - UNALLOCATED 1/	Check one: IBRD	IDA	Amounts ($m.) Timing (FY) 70	71	72	73	74
Agriculture: Agricultural Credit	x		15				
Education (Technical)	x				10		
Transportation: Ports II	x			10			
Highways II	x			20			
Development Finance Companies:							
IDBI III	x			15			
IDBI IV	x				15		
	5 year total		15	45	25	0	0
TOTALS - IBRD	85		15	45	25	0	0
IDA	-		-	-	-	-	-

1/ Where projects not yet identified give total "unallocated" amounts indicating, in parenthesis, probable number of projects in appropriate amounts column.

Form No. 49A.

May 26, 1969

ANNEX IV

ISRAEL

BANK/IDA LENDING PROGRAM

	FY1965 and prior	FY1966	FY1967	FY1968	FY1969	FY1970	FY1971	FY1972	FY1973	FY1974
Agriculture		1/								
Bank						1/15				
IDA										
Communications										
Bank								1/10		
IDA										
Education										
Bank										
IDA										
Maint. Imports										
Bank										
IDA										
Power										
Bank										
IDA										
Transportation										
Bank	2/49.5						2/30			
IDA										
Water Supply										
Bank										
IDA										
Tourism										
Bank										
IDA										
Dev. Fin. Cos.										
Bank		1/20		1/15			1/15	1/15		
IDA										
Industry										
Bank	1/25									
IDA										
Other & Unallocated										
Bank										
IDA										
Total										
Bank	3/74.5	1/20		1/15		1/15	3/45	2/25	0	0
IDA										
Bank and IDA	3/74.5	1/20		1/15		1/15	3/45	2/25	0	0

1/ Each entry will show both the number of projects and the total dollar value for that year and sector, separated by a slash. Thus, for example, an entry of 4/57 would denote 4 projects with a total value of $57 million. If the exact number of planned projects for a year is not known, put an X where the number would otherwise be, e.g., X/57.

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Form No. 57 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

Mr McNamara to see
cc 11/20

OFFICE MEMORANDUM

TO: Memorandum for Record DATE: November 20, 1969

FROM: R.H. Springuel RHS

SUBJECT: Israel - Meeting between Mr. McNamara and the Israeli Delegation to the Annual Meeting

At 2 p.m. on October 1, 1969, Mr. McNamara met with the Israeli Delegation to the Annual Meeting, which included Governor Horowitz, Finance Minister Sharef, Dr. Arnon and Mr. Alexandroni. Present for the Bank were Messrs. Knapp, Lejeune and Springuel.

Mr. McNamara congratulated Governor Horowitz on the speech Mr. Horowitz had delivered that morning before the Annual Meeting.

Mr. McNamara indicated that resuming Bank lending to Israel was difficult because Israel had a very high per capita income, it used a substantial part of its financial resources for defense purposes, and it was practically at war. Mr. McNamara wanted, however, to face these issues and to get a Board decision as early as possible. For this, he needed a concrete case and the agricultural credit project seemed an adequate vehicle for getting a decision. He understood that some difficulties had been encountered recently when the Bank staff was reviewing the project documentation which had been submitted in September. He urged that the additional information be sent to the Bank as quickly as possible.

Governor Horowitz, in agreeing with this approach, noted that, this being the first agricultural credit scheme submitted to the Bank, the Israeli authorities had had some difficulty in meeting the formal requirements of the Bank. He hoped that these could be overcome very soon and that this project, in view of Israel's previous achievements in the agricultural sector, would turn out a success.

Mr. Sharef then stressed the high priority which his Government was attaching to the road construction project. He recalled that a project had been prepared three years ago and was halted because the Bank decided to discontinue lending to Israel.

Mr. McNamara understood that there were difficulties to open road construction in Israel to international competitive bidding, a problem which had already occurred during the preparation of the second road project in 1966, to which Mr. Sharef had alluded.

President has seen

Memorandum for Record November 20, 1969

Mr. Sharef explained that the Government was prepared to call for international competitive bidding, but felt foreigners could probably not compete. Dr. Arnon specified that the Government normally would employ its own force account, frequently calling on local contractors for specified items. It was, however, not geared to participate in international competitive bidding. In addition, it would be politically difficult to run the risk that foreign firms could displace local forces and domestic labor /1 .

Mr. Knapp reminded that, under exceptional circumstances, a case could be made for implementation of road construction by force account, but that each case needed to be examined very closely.

In view of these difficulties, Mr. McNamara suggested that an alternative project be considered. Mr. Horowitz mentioned the education project which had been also proposed. In the light of Israel's limited natural resources, the country's future would largely depend on its progress in the technological field. In the not very distant future, Israel would have to compete with the most advanced nations in this field, and therefore, would have to develop its skills in time. Mr. McNamara concluded that the Bank would like to look at such a project which seemed to bear directly on Israel's economic development.

/1 Subsequently, government representatives indicated they were prepared to call for international competitive bidding.

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May 23, 1970

MEMORANDUM OF CONVERSATION WITH DAVID HOROWITZ, GOVERNOR, BANK OF ISRAEL, IN PARIS, MAY 22, 1970

Governor Horowitz stated:

1. Based on creditworthiness and performance, Israel deserved and was eligible for more loans from the Bank than we were presently programming I told him that at best, because of high income per capita, and diversion of resources from economic to military activities, Israel was a marginal case for the Bank and we had no basis for increasing the present program of lending.

2. Israel would benefit substantially if the agricultural loan now scheduled for October could be submitted to the Board for approval sometime between July 1 and Autumn. I said I would try to accelerate the processing of the project, although I could make no promise that it would be discussed earlier than presently planned.

3. He hoped the Bank would be able to participate in financing the rehabilitation of refugees, although he had no specific proposal to make at this time.

4. The Horowitz Plan offered a means of increasing the volume and reducing the costs of development loans. He asked whether it would be possible for the Bank to experiment with the Plan. I replied that Udink was considering the possibility of a unilateral contribution by The Netherlands to the Bank for such a purpose, and that if we received such a contribution, I would be happy to consider a pilot project.

Robert S. McNamara

FORM No. 58 INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: May 14, 1970

FROM: M.P. Benjenk MY

SUBJECT: ISRAEL

1. Attached please find a brief on Israel.

Brief for Mr. McNamara's
conversation with Governor Horowitz

1. Below is a brief biographical sketch of Mr. David Horowitz, Governor of the Bank of Israel, Governor for the Bank. The latest five-year lending program is attached as is a brief description of the Israeli economy and the Bank relations with Israel. Pending projects are also described.

David Horowitz

Mr. Horowitz was born in Poland in 1899, and educated in Vienna and Lwow. In 1920 he emigrated to Palestine. He became Director of the Economic Department of the Jewish Agency for Palestine in 1935, and was a member of various government committees under the British Mandate. In 1948 he was appointed Director General in the Ministry of Finance, and in 1952 Governor Designate of the Bank of Israel, whose Governor he became in 1954.

Mr. Horowitz is a well known economist, chairman of the Board of Directors of the Eliezer Kaplan School of Economics and Social Sciences (Hebrew University in Jerusalem) and author of several publications dealing with the economy of Israel. He is the father of the "Horowitz Plan", a proposal for increasing funds for developing countries by raising money in the capital markets of industrialized countries and softening their conditions through an "interest equalization fund" to be fed and guaranteed by the governments of the industrialized countries.

Possible Theme of Discussion

Because the outlook for the balance of payments has worsened since Mr. Horowitz last talked to you in October, me may be expected to push with particular urgency the necessity of the Bank contributing in a larger way to Israel's development. At that time, the Israelis were asking the Bank for $220 million spread over five years. Our present lending program for the 5 years 1970-74 would amount to about $130-135 million. One gauge of the size of their problem is the recently reported request to the U.S. for $1,500 million of aid over the next ten years.

In October, you told Mr. Horowitz that lending to Israel was difficult because Israel had a very high per capita income, used a substantial part of its financial resources for defense purposes, and was, for practical purposes, at war.

At various times since October, representatives of the Bank of Israel have visited the Bank to check on the progress of the various projects. During these working level meetings, we have stressed that the Bank had to apply special criteria to semi-developed countries like Israel, Spain, and Finland, because these countries have an absorptive capacity for Bank loans far in excess of the share of Bank resources which can be reasonably allocated to them. Thus, the total amount of Bank lending must be determined by a pragmatic consideration of indicators such as the amount of Bank funds per capita going to any one country. In addition, there had to be special reasons for lending in such countries, such as the need for assistance in implementing reforms, their inability to raise capital from normal sources, etc. The Israeli representatives were quite unhappy with this approach, and complained that we were identifying, preparing and appraising loans at a deliberately slow pace.

Economic Situation

Economically Israel has done well over the last two decades: the growth rate of GNP (in real terms) has been averaging 10 percent and that of per capita income 5 percent. Except for a brief period from 1965 to 1967, when the Government followed a deflationary policy, this growth has been accompanied by a widening foreign exchange gap. The balance on current account, which has been persistently negative in the past, is widening. In spite of a rapid increase of foreign exchange earnings (15 percent in the last 5 years), and good prospects of a further sustained increase (12 percent a year) in future years, the likelihood that the gap (over $800 million in 1968) will soon be closed, is low.

An essential element in Israel's balance of payments are foreign donations and bond purchases which in the past several years have ranged between $420 and $770 million a year. The amount of this inflow has varied from year to year: feelings of Jewish solidarity appear to prompt larger contributions at times of stress for Israel, then the flow decreases when the immediate danger is over. Assistance from the U.S. had been declining in recent years, but in March, when President Nixon turned down Israel's request for military aircraft, he offered a $100 million economic aid package

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Part of this package, a $43 million food aid agreement has just been signed. This provides about $10 million worth of commodities more than Israel received from the U.S. last year.

Economic developments in the last 3 years must be viewed against the background of external and internal political conditions. The continuation of military pressure has, on the one hand, resulted in heavy public expenditures for defense and a rise in foreign payments for defense-related imports but, on the other, may have contributed to higher non-commercial capital inflows. Military requirements have also placed a heavy burden on available human resources. Defense spending rose sharply in 1967 and continued to grow fast in 1968 and 1969, bringing the total defense burden of the country to a record level estimated at 20 percent of GNP, and almost half of total government spending.

After a high growth rate in 1968, output, investment and exports continued to rise in 1969, although at a slower pace. Total real resources available to the Israeli economy, which had increased by 18 percent in 1968, rose again by about 15 percent in 1969. The high growth of demand in 1969 was led by gross fixed investment which increased its share of GDP from 20 to about 22 percent. At the same time, public and private consumption have increased by about 12 percent during the year. In addition to stimulating production of already established industries, Israel is having to create new jobs for a continued flow of immigrants. More than 100,000 have immigrated since the 6-day war.

Even though efforts to increase exports and investment have met with some success, the recent fast growth of internal demand and the mounting defense expenditures have led to a deterioration of the balance of payments and a consequent decline in reserves. Foreign exchange reserves of the Central Bank declined from the 1967 high of $715 million to $412 million at the end of 1969, equivalent to about two months of imports, and are still falling. A number of steps, including restrictive budgetary and wage measures and increased export incentives, have recently been taken to cope with this situation and the authorities have declared themselves ready to take further measures, should they prove necessary.

Israel's medium and long-term external public debt has risen fast in recent years, reaching a total of just over $2 billion at the end of 1969. Interest and amortization payments on public debt grew apace; but as foreign exchange earnings have risen even

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faster (in the last 5 years they increased at an average rate of 15 percent), the ratio between service payments and these earnings has declined from some 20 percent in the early 1960's to about 14 percent in the recent past. For 1970, the service payments are estimated to reach $182 million, or about 12 percent of foreign exchange earnings. Even if Israel continues to borrow abroad on a large scale, the debt service ratio is unlikely to increase, since foreign exchange earnings are expected to continue rising rapidly and a large share of the new loans - privately-sold Development Bonds and bilateral official aid - will be obtained on concessional terms. Israel is therefore considered creditworthy for additional borrowing on conventional terms.

The Bank and Israel

Bank lending to Israel from 1960 to 1967 totalled $109.5 million. In February 1967, the Economic Committee concluded that in view of the Government's decision to slow down the rate of economic growth, the prospective availability of adequate capital from sources other than the Bank, and the limitations on the Bank's own resources, lending to Israel should be deferred until such time as Israel's needs became clearer. Thus, with the signing of the second IDBI loan in November 1967, the Bank suspended new operations.

After the 1967 war, however, the Government reverted to an economic policy aimed at maintaining a high rate of expansion with full employment. As a result, the Government requested a resumption of Bank lending, and an economic mission visited the country in November 1968 to review the situation. This mission concluded that in view of the changes in Israel's general economic and political situation, its high rate of immigration, the large defense burden, and the renewed commitment to rapid growth, Israel's need for foreign capital would exceed potential sources. The mission recommended that the Bank be prepared to resume lending on conventional terms but only under the condition that continued lending would depend on adequate performance, particularly in respect to internal financial stability, growth of exports and public savings.

In early 1969, the Israelis, having been informed of the Bank's five-year planning approach by their Executive Director, and anticipating the resumption of lending, submitted to the Bank a program for borrowing $220 million over the following 5 years. At the time of the annual meeting in October 1969, the Bank was, without committing itself to the resumption of lending, considering a three-year lending program of $85 million, and beginning preparatory work on several projects.

An agriculture credit project was to have been the first in the new lending program, but because of project reasons, it will follow, rather than precede the Development Bank loan scheduled for Board discussion later this month. In February 1970, a revised lending program was prepared on the assumption of an annual rate of lending of $25 to $30 million (about $10 per capita). [see attachment]

At present, there are four projects in various stages of preparation: the IDBI development bank loan of $25 million, the Agriculture credit loan of about $22.5 million 1/ to be presented in October 1970, the Road loan of up to $30 million scheduled for early FY 72, and an Education Loan of about $15 million scheduled for FY 73. A brief discussion of each of these follows.

<u>DFC - IDBI III</u>

The Bank previously made two loans to IDBI; one in 1965 for $15 million and one in 1967 for $20 million. Thus, the pending loan of $25 million will be the third Bank contribution to the company.

IDBI is the largest industrial development institution in Israel. It was established in 1957 on the joint initiative of the Government, the three largest commercial banks, the General Federation of Labor (Histadrut) and the Manufacturers' Association. IDBI's assets amount to 80 percent of the industrial investment bank assets of the country. In addition, IDBI has financed between one-fourth and one-third of the gross annual investment in industry.

In addition to its own operations, IDBI administers certain government funds lent to government-controlled enterprises and the local currency loans arising from USAID agricultural programs. It also cooperates with the Government in implementing industrial development programs. Besides its main lending function, IDBI is empowered to undertake a wide variety of other investment banking activities. However, in the past, it has concerned itself almost exclusively with lending.

Textile and leather industries have received about 24 percent of IDBI's total loans by value, the metal, chemical and rubber industries 16 percent each, food and tobacco 12 percent, non-metallic minerals 10 percent, paper and printing 5 percent and

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1/ This is listed as $30 million in the lending program, but is being reduced to $22.5 million. Mr. Knapp, after consulting with you, has informed the Area Department that $30 million is too large an amount for lending to Israel in a single year.

miscellaneous 17 percent. IDBI estimates that more than two-thirds of the enterprises it finances are export oriented.

As of the end of 1969, IDBI had approved 2,568 operations for a cumulative total of $400 million. The outstanding loan portfolio as of that date was $260 million and the shares held totalled $9.5 million.

IDBI issues nine classes of ordinary or preferred shares in order to appeal to as wide a range of investors as possible. Of the presently authorized share capital of $119 million, only $4.3 million or 3.6 percent are voting shares. Of these shares, 26 percent are held by Government, 55 percent by private domestic investors, and 19 percent by foreign investors. IDBI has a backlog of projects awaiting approval and has projected loan commitments of $136 million for the two years beginning July 1970. Of this, about $66 million would be required in foreign exchange. The Bank loan will cover $25 million and a further $23 million will come from identified sources. The remaining $18 million is still to be raised.

Since our loan will cover only a portion of IDBI's needs for two years, Mr. Horowitz may ask about the possibility of another loan to IDBI at an early date. We have programmed a loan for FY 1974 but this will be at least one year following the expected absorption of our present loan.

<u>Agricultural Credit I</u>

Originally scheduled to be the first of the new projects presented to the Board, the Agriculture Credit loan ran into technical problems and was slightly delayed. In order to keep the rate of lending to Israel within reasonable limits, its Board presentation has been postponed from May until October 1970.

The project aims at increasing the production of flowers, sub-tropical fruits and off-season vegetables for export to the Western European market and wheat and cotton for import substitution. After appraisal in November 1969, the project was redefined to exclude three large irrigation items which had raised technical problems. The loan will now be for around $22-23 million with the main items; irrigation systems, greenhouses, plantations, and export handling facilities for the handling and shipping of the extremely perishable products.

For the Israelis, the main issue remaining is the timing of the loan since the Agricultural year begins on 1 October and this project is scheduled to start in July. Thus, Mr. Horowitz may ask

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either that the loan be presented to the Board prior to the Annual Meeting, or that they be allowed some retroactive financing. Dr. Lieftinck has also urged that the loan go to the Board before the Annual Meeting.

Roads II

A highway loan was proposed in 1966 but there were problems in getting the Israelis to submit to international competitive bidding. With the interruption of lending in 1967, the project was dropped. An updated version was submitted in 1969 and a project preparation mission visited Israel in December 1969. International competitive bidding is no longer an issue and items suitable for such bidding have been selected. The project would be ready for appraisal in July 1970. However, to keep overall lending within the $30 million/year ceiling, it has been necessary to postpone this loan to FY 72 and therefore to postpone appraisal until late 1970. We have informed the Israelis of this, causing much dismay. We have also proposed that a pre-appraisal mission visit the country this summer to check the progress of preparation, in order to avoid any additional delay.

In view of the readiness of the project the Israelis were expecting to receive this loan by March 1971 rather than July or later. Thus you may expect to be pressed rather strongly by Mr. Horowitz to reconsider the timing.

Education I

The outlines of this project have not been clarified, although it reportedly will involve technical and vocational training. In early May Mr. McMahon, a technical educator on the Bank staff, had preliminary discussions with the Government on the education development program, but his report is not yet available. Since the loan is scheduled for FY 73, preparation and appraisal missions have not been scheduled.

Following Mr. McMahon's visit, there was a press release by Mr. Horowitz referring to Israel's "application for a World Bank loan for technological training". He "made it clear that Israel was not applying for financing to extend its educational network, which was outside the World Bank's sphere" but for development of the country's manpower potential which was the basis of Israel's rapid growth.

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Until recently, there was no agency in charge of overall educational planning in Israel, responsibilities being shared by various ministries. Now, the Bank of Israel coordinates the work of an interdepartmental committee on educational planning. Quite possibly, Mr. Horowitz's objective with this loan is to gain outside assistance and expertise in consolidating educational planning, in which case the timing of such assistance might be very important for the Government. He also might be interested in independent advice to offset some of the traditional religious influences in Israeli education.

Conclusions:

The Israeli authorities, due to their extreme shortage of foreign exchange are anxious to pursue their development effort in spite of their military and political predicament, and are disappointed at the deliberate pace of the Bank's processing of their projects. We have told them our reasons for this and they understand them, but cannot be expected to agree. They therefore wish to appeal to you for increased assistance at a faster rate.

May 14, 1970

Population: 2.8 m.
Per Cap Inc.: 1,427
(at official exchange rate)

ISRAEL - ACTUAL AND PROPOSED LENDING THROUGH FY 1975

($ millions)

		Through 1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	Total 1964-68	Total 1969-73	Total 1971-75
							Fiscal Years										
Agricultural Credit I	IBRD									30.0							
Agricultural Credit II	IBRD													30.0			
DFC - IDBI I	IBRD				20.0												
DFC - IDBI II	IBRD						15.0										
DFC - IDBI III	IBRD								25.0								
DFC - IDBI IV	IBRD												30.0				
Education I	IBRD											15.0					
Potash Plant	IBRD	25.0															
Tourism	IBRD											10.0					
Ashdod Port	IBRD	27.5															
Roads I	IBRD	22.0															
Roads II	IBRD										30.0						
TOTAL		74.5			20.0		15.0		25.0	30.0	30.0	25.0	30.0	30.0	35.0	110.0	145.0
No.		3			1		1		1	1	1	2	1	1	2	5	6
IBRD Loans Outstanding																	
- including undisbursed			71	94	93	104	99	109	126	148	170	186	205	222			
- excluding undisbursed			37	64	82	86	85	102	101	109	120	131	148	176			

Europe, Middle East and North
Africa Department

February 25, 1970

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

CONFIDENTIAL

TO: Files

DATE: October 22 1970

FROM: M.P. Benjenk

SUBJECT: ISRAEL - Meeting with Mr. McNamara in Copenhagen

Mr. McNamara met with the Israeli delegation in Copenhagen on Tuesday September 22. Present on the Israeli side were the Minister of Finance, Mr. Sapir, Governor David Horowitz and the Secretary General of the Bank of Israel Mr. Taub. Mr. Knapp and Mr. Benjenk also attended the meeting.

The meeting began with a short review of the state of the various projects submitted to the Bank by Israel. The Israeli delegation expressed the hope that the agricultural credit project would be approved in early October by the Executive Directors of the Bank. They noted that the next project in the pipeline was a project for roads scheduled for negotiation in the spring of 1971.

The Minister of Finance said that Israel was making considerable progress in increasing the exports of its goods and also in invisible exports. The aim of the Government for the period 1971 to 1975 would be to double exports so that the gap between exports and imports could be reduced to manageable proportions. The great unknown, of course, would be the defense component in the import bill in the ensuing years.

Mr. McNamara expressed his satisfaction at the successful conclusion of negotiations on the agricultural project which was very export oriented. With regard to the general lending policy of the Bank towards Israel, he felt some uneasiness because the Bank was contributing a very large per capita amount to Israel, the more so because Israel was a country with a high per capita GNP. Moreover, a large part of Israel's outlay was related to defense and, while he did not wish to make judgments as to the necessity for this, it did raise some questions as to the justification for Bank lending.

The Minister of Finance said that one of the most important justifications for Bank lending should be Israel's absorption of a large number of immigrants amounting to 120,000 in the past three years, and there might even by a higher rate of absorption in the ensuing years. He expected more immigrants from Turkey, Iran and Morocco but also some from the West and from Rumania. Israel was continuing its efforts to become an export oriented industrial country and more than 50% of GNP was now contributed by industry and only 12% by agriculture.

Finally, Israel was very conscious of the contribution which it could make to the development of less developed countries and had sent large numbers of Israeli experts to countries all over the world and was training thousands of people from Africa, Asia and Latin America in Israeli institutions.

Mr. McNamara expressed great interest in Israel's effort to bring technical assistance to the LDCs and the Minister promised that information on that subject would be sent to the Bank.

Mr. McNamara
Mr. Knapp

President has seen

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 15, 1971

FROM: R.H. Springuel RHS

SUBJECT: ISRAEL - Annual Meeting 1971

On October 1, Mr. Horowitz visited Mr. McNamara. He was accompanied by Messrs. Agnon and Naveh. Messrs. Knapp, Chennery, Benjenk and Springuel were also present.

Mr. Horowitz stated that he was very grateful to Mr. McNamara to give him this opportunity to pay his respects at the occasion of his last Annual Meeting as Governor for the Bank, representing Israel. He congratulated Mr. McNamara on his statement at the Annual Meeting, and Mr. McNamara congratulated him on his.

Mr. McNamara raised two points: he wanted to know the number of technical assistants Israel sent abroad, the countries and the sectors, and in general whatever information Israel could send on the subject, because he felt that information would give him good arguments when presenting loans to Israel to the Executive Directors. He was aware that such information had already been given in the past. Mr. Horowitz mentioned immediately that Israel had twice as many experts abroad than most other aid-giving nations, and promised to update this information shortly.

Mr. McNamara also wanted to know how many immigrants were coming to Israel. Mr. Horowitz indicated that in the last few years, these had amounted to about 40,000 per year, i.e. 10,000 from each of the following regions: North America, Eastern Europe, Western Europe and Latin America, and less developed countries. This was a shift from previous years, when the majority of the immigrants were coming from underdeveloped countries; this was much better for the development of Israel, but caused more demand for investments since 3/4 of the immigrants now expected to have a standard of living equivalent to that of Western Europe.

Thanking again Mr. McNamara for his understanding and cooperation, Mr. Horowitz repeated the often extended invitation for a visit to Israel. Mr. McNamara expressed his desire to go when he will find the time.

cc: Mr. McNamara (2)
Mr. Knapp
Mr. Chennery
Mr. Benjenk

President has seen